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E.O. 12958: DECL: 03/15/2016
TAGS: [EFIN](#) [ECON](#) [EAID](#) [KWBG](#)
SUBJECT: PA FINANCES: SALARIES PAID THOUGH STILL SHORT ON
FUNDS, ARAB BANK AND THE PA'S SINGLE TREASURY ACCOUNT

REF: AMMAN 1790

Classified By: Consul General Jake Walles for reasons 1.4 (b) and (d).

¶1. (C) Summary: PA Deputy Finance Minister al-Wazir confirmed that the PA had disbursed basic salaries for civil servants and security service members March 15. Though the PA was still short on funds, al-Wazir said that Arab Bank had agreed to re-open a USD 50 million credit line for the PA to pay salaries based upon the need to defuse the volatile situation after the March 14 events and expectations that the PA would receive further external assistance before the change in government. Al-Wazir said that he expects an immediate transfer of USD 20 million from the United Arab Emirates but hoped a second USD 20 million tranche would be forthcoming as well. Al-Wazir said he planned to complete March 18 the refinancing of a Palestine Investment Fund (PIF)-collateralized PA loan with Arab Bank to allow the PA to repay the final tranche of the USD 50 million refund to the USG. Both al-Wazir and the IMF ResRep noted their recent conversations with Arab Bank management about its concerns about holding the PA's single treasury account under a Hamas-led government and urged a USG response to Arab Bank's letter seeking the Treasury Department's counsel. End summary.

PA to disburse salaries
afternoon of March 15

¶2. (C) Palestinian Authority (PA) Deputy Finance Minister Jihad al-Wazir confirmed March 15 to EconChief that he had disbursed basic salaries (totaling about USD 90 million) March 15 to PA security service members and civil servants. Al-Wazir noted that he hoped to pay unemployment benefits and other social safety net payments once further external assistance is received. (Note: Former militants who have not been formally added to the security services payroll are paid from the unemployment rolls. In January and February, these individuals disrupted law and order in the West Bank and Gaza until they received their NIS 1000 payment. End note.)

¶3. (C) Though the PA is still short on funds and awaiting further external assistance from the United Arab Emirates, he said that Arab Bank had understood the need to defuse the volatile situation, after the events in Jericho, Gaza, and Ramallah, March 14, and had agreed to provide the PA with a USD 50 million credit line on the condition that it would be repaid before the change of government. IMF ResRep Joel Toujas noted to EconChief that the PA had paid off the last Arab Bank USD 50 M credit line with budget support from the

World Bank Reform Trust Fund and Saudi Arabia, so the Arab Bank had decided to re-open the credit line based upon expectations the PA would receive enough external assistance in order to repay the credit line before the end of March when the caretaker government is expected to leave office.

¶4. (C) Toujas confirmed that PA domestic revenues of only USD 10 million were going to pay PA salaries since the remainder had been used for other expenditures, including the losses of the Palestinian Petroleum Corporation and interest payments on the PA's commercial bank bridge loans. (Note: Al-Wazir was quoted in the Arabic press March 13 saying that the PA had decided to restart its slight subsidy of retail fuel prices through the Palestinian Petroleum Corporation in order to end a taxi strike in Gaza. In February, al-Wazir had stopped the subsidy, so the price for one liter of gasoline increased from NIS 3.75 (USD 0.80) to NIS 3.85 (USD 0.82). End note.) Toujas confirmed that the first payment of 15 million euros from the European Union for the Gaza power plant's fuel oil had been paid March 10 to Israeli fuel supplier Dor. Toujas confirmed that this payment helped reduce net lending in February by USD 10 million. Toujas also noted that the Israeli Finance Ministry had deducted NIS 65 million from the frozen PA clearance revenues for electricity payments. There were no deductions for water.

Emirati budget support
may only total USD 20 million

¶5. (C) Al-Wazir confirmed that the PA is still short of funds to cover the salary payments because the promised Emirati budget support of USD 40 million had not yet materialized, in cash or via a confirmation letter. In fact, he noted that the initial transfer was only likely to be USD

20 million, though he hoped there would be a second transfer of USD 20 million. Al-Wazir acknowledged that he had not told Arab Bank (or anyone else outside the PA Finance Ministry) that the transfer is likely to be only USD 20 million because he needed Arab Bank to agree to full the USD 50 million credit line.

Refund of final tranche of
USG cash transfer

¶6. (C) Al-Wazir said that, since the PA had managed to disburse salaries, he hoped to conclude with Arab Bank March 18 the refinancing of a PA loan (collateralized with PIF assets) in order to refund the final tranche of the USD 50 million USG cash transfer for infrastructure projects in Gaza. (Note: A USD 30 million first tranche was refunded on March 1. End note.) (Comment: Post will continue to pursue this repayment with al-Wazir. End comment.)

Arab Bank and the PA's
single treasury account

¶7. (C) Both al-Wazir and Toujas recently raised with EconChief their conversations with Arab Bank management about Arab Bank's serious concerns about continuing to hold the PA's single treasury account once a Hamas-led government takes over and that Arab Bank had sought USG counsel on the matter (per Embassy Amman reftel). Al-Wazir told EconChief March 15 that he hoped the USG would allow Arab Bank to continue operating the PA's single treasury account. Without a green light from the USG, al-Wazir said he was certain that Arab Bank would close the account. He commented that it was proving difficult to identify a large enough bank that would be willing to take over this account. He argued for a separation between political and technical matters, so that there could be a non-Hamas-affiliated financial system. Otherwise, he warned, everything will crash the minute a Hamas-led government takes over. Toujas said he saw no real alternative to the Arab Bank holding the PA's single treasury account and urged the USG to respond soon to Arab Bank.

